



Washington State Auditor's Office

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Financial Statements Audit Report

Chelan County Public Hospital District No. 2

(Lake Chelan Community Hospital)

For the period January 1, 2013 through December 31, 2014

Published February 18, 2016

Report No. 1016171





Washington State Auditor's Office

February 18, 2016

Board of Commissioners
Lake Chelan Community Hospital
Chelan, Washington

Report on Financial Statements

Please find attached our report on the Lake Chelan Community Hospital's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Status Of Prior Audit Findings	4
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	5
Independent Auditor’s Report On Financial Statements	8
Financial Section.....	11
About The State Auditor’s Office.....	50

STATUS OF PRIOR AUDIT FINDINGS

Lake Chelan Community Hospital Chelan County January 1, 2013 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Lake Chelan Community Hospital. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: January 1, 2013 - December 31, 2013	Report Ref. No.: 1014677	Finding Ref. No.: 1
Finding Caption: The District's internal controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.		
Background: Our audit identified deficiencies in internal controls that, when taken together, represent a significant deficiency: <ul style="list-style-type: none"> Staff responsible for preparation of the financial statements lacked the technical knowledge of certain reporting requirements prescribed by Governmental Accounting Standards Board (GASB). Although the District has a process for reviewing the prepared financial statements, this review was not effective in ensuring the financial statements were accurate in all respects. During our audit, we identified the following errors, which were not detected by the District: <ul style="list-style-type: none"> Land Held for Future Use was misclassified as an Other Asset. District did not accurately apply provisions of GASB Statement No. 62 <i>Assets Qualifying for Interest Capitalization</i>, which resulted in assets being overstated and expenses being understated. The District did not adopt relevant provisions of GASB Statement No. 65 <i>Refundings of Debt</i>. We also identified less significant errors during the course of our audit. 		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid </div>		
Corrective Action Taken: <i>The District has corrected all of the items noted above. The 2013-2014 Financial Statements reflect these corrections.</i>		

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Lake Chelan Community Hospital
Chelan County
January 1, 2013 through December 31, 2014**

Board of Commissioners
Lake Chelan Community Hospital
Chelan, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Lake Chelan Community Hospital, Chelan County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 26, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 26, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lake Chelan Community Hospital Chelan County January 1, 2013 through December 31, 2014

Board of Commissioners
Lake Chelan Community Hospital
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lake Chelan Community Hospital, Chelan County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake Chelan Community Hospital, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 69 Government, *Combinations and Disposals of Government Operations*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained

during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 26, 2016

FINANCIAL SECTION

**Lake Chelan Community Hospital
Chelan County
January 1, 2013 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013

Statement of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis



LAKE CHELAN COMMUNITY HOSPITAL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis is intended to provide an interpretive context to enhance the reader's awareness and understanding of some of the issues influencing the organization's financial position for the year ended December 31, 2014. This overview represents management's perspective on these issues and should be viewed as a source of information complimentary to the financial statements themselves.

Chelan County Public Hospital District No. 2 (The District) is a non-profit, municipal corporation, which includes Lake Chelan Community Hospital, Lake Chelan Community Apartments, Home Health, Lake Chelan Clinic, and an Ambulance Company. The District is a Critical Access Hospital (CAH) licensed for 34 beds, but held to 25 in-patient CAH requirements. The District serves a population base of over 10,000. The hospital has operated since 1948 and became a hospital district in 1969. The current facility was constructed in 1972 with a third floor added to the hospital in 1994.

CAH status for the Hospital has a favorable impact on District finances. Medicare and Medicaid reimbursement is cost based and therefore typically higher than what the District would otherwise receive under a fixed, DRG or APC-driven, prospective payment system (PPS). The District receives tax revenue representing approximately 3.45% of 2014's gross patient receipts: \$671,780 general hospital levy and \$701,391 EMS levy.

The District is governed by a five member elected board of directors. Day-to-day operations are managed by the Chief Executive Officer. The District employed 202 FTE's on December 31, 2014, and had an annual payroll of \$17.8M including benefits.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Issues Facing the District

The challenges facing Lake Chelan Community Hospital District in 2014 are largely similar, although varying in degree of intensity, to those issues facing the health care industry in general and for small, rural hospitals in particular. Where the immediate environment and circumstances uniquely influence the District, these areas are also highlighted in the discussion below:

- **Indigent and Uncompensated Care:** Uncompensated care is a national issue that impacts the District. Health care reform is designed to increase the number of insured under Medicaid and decrease uncompensated care.
- **Health Information Technology:** Centers for Medicare & Medicaid Services (CMS) have issued a mandate with punitive results if health care providers do not fully comply with Electronic Health Record requirements by 2015. The District has a robust health information technology system and has met CMS meaningful use requirements.

In summary, the external environment continues to challenge hospitals and small rural hospitals in particular with uncompensated care and health information technology. At the same time, The District's employees working together continue to find ways to make progress on improving how the District organizes and processes work in such a way that we continue to improve clinical care and service to our patients and community all the while striving to improve our financial positioning and overall performance.

Financial Highlights Executive Overview

The District finished 2014 with a gain of \$332,003.

Lake Chelan Community Hospital made the following capital purchases in 2014: Blanket Warmer for the Emergency Room \$7,869; Glidescope Ranger System and 2006 Ford E350 Van for a total of \$44,493, \$16,116 of which was donated by the Lake Chelan Community Hospital Foundation; Security Software Upgrade and Centricity Flat File Conversion for IT for \$23,297; Arm Positioner, Washer/Disinfector, Sterilizer Machine, Water Purifier for Sterilizer Machine, and Mini C-Arm for OR for \$204,532, \$5,000 of which was donated by Bruce & Virginia Kehr and \$4,000 of which was donated by Guild B; Elevator Power Unit Replacement, HVAC Condenser Replacement and HVAC Compressor Replacement for Plant for \$50,636; CT Contrast and Radiation Software, Virtual Radiologic Interface to CPSI, CPSI Interface to Virtual Radiologic and Konica Minolta CS-7 Upgrade Radiology for \$52,205, \$23,902 of which was donated by Guild B; Phone System for \$5,518 for Lake Chelan Clinic; Lake Chelan Clinic \$498,700.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Comparisons of 2014 Actual to Budget and Prior Year Performance

Net patient service revenue was \$22,744,993 in 2014 which was an increase from the prior year and about 5.2% increase from budget net patient service revenue. The net increase is attributed to the changes in total patient services revenue as reflected in the total patient services gross revenue table below. Total operating expenses were under budget by 7.4% and under budget in the prior year by .3%.

FY 2014			
LAKE CHELAN COMMUNITY HOSPITAL			
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Ambulance	\$ 2,011,733	\$ 2,116,124	-4.93%
Home Health	395,163	383,845	2.95%
Med Surg	1,600,957	1,973,158	-18.86%
Surgery	1,821,246	1,459,168	24.81%
Emergency Room	4,921,337	4,587,033	7.29%
Anesthesiology	1,003,963	749,890	33.88%
Labor & Delivery	821,307	651,297	26.10%
Respiratory Therapy	874,161	989,385	-11.65%
Physical Therapy	1,413,475	1,384,742	2.07%
Laboratory	3,013,597	2,909,893	3.56%
Radiology	4,138,678	3,696,714	11.96%
Sanctuary	4,002,008	3,971,450	0.77%
Pharmacy	3,590,045	3,599,129	-0.25%
All Others	9,756,593	8,164,062	19.51%
Totals	<u>\$ 39,364,263</u>	<u>\$ 36,635,890</u>	<u>7.45%</u>

Overview of the Financial Statements

The District's financial statements consist of three statements: Statement of net position; statement of revenue, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Required Financial Statements

All of the revenue and expenses for years 2014 and 2013 are accounted for in the statements of revenue, expenses, and changes in net position. The statements can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of quality of service it provides to the community, as well as local economic factors, to assess the overall health of the District.

The final required statement is the statements of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The District's financial statements report information of the District using accounting methods similar to those used by private sector health care organizations. These statements offer short-term and long-term information about its activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted asset and liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position (Continued)

These two statements report the District's net position and changes. You can think of the District's net position as the difference between assets and liabilities as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's patient base and measure of the quality of service it provides to the community, and local economic factors to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. Cash Flow Statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

The Financial Analysis of the District

The following is a presentation of certain financial information derived from the Statement of Net Position:

The statement of net position shows an increase of \$164,121 in total assets and deferred outflows of resources from 2013 to 2014. The filed Medicare cost report indicates the Medicare and Medicaid settlements to be in the amount of \$835,579 receivable and \$50,000 payable, respectively. Noncurrent assets show a decrease of \$2,040,603 from 2013 to 2014. Long term debt decrease \$209,843 while current liabilities had a increase of \$145,347. Capital lease obligations increased \$13,828 from 2013 to 2014.

	2014	2013	2012
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	\$ 7,733,456	\$ 5,823,669	\$ 4,946,942
Noncurrent cash and cash equivalents	891,908	2,932,511	3,713,490
Capital assets	8,291,692	8,293,002	8,387,097
Other assets	273,259	271,435	303,748
Deferred outflows of resources	698,971	404,548	3,119
Total assets and deferred outflows of resources	<u>\$ 17,889,286</u>	<u>\$ 17,725,165</u>	<u>\$ 17,354,396</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities	\$ 2,765,828	\$ 2,620,481	\$ 2,467,243
Long term debt less current maturities	7,551,872	7,761,715	7,460,000
Capital lease obligation less current portion	34,581	20,753	54,912
Deferred inflows of resources	77,653	194,867	181,705
Total liabilities and deferred inflows of resources	<u>10,429,934</u>	<u>10,597,816</u>	<u>10,163,860</u>
NET POSITION			
Net investment in capital assets	846,023	665,923	1,562,529
Restricted expendable	3,363	3,388	129,933
Unrestricted	6,609,966	6,458,038	5,498,074
Total net position	<u>7,459,352</u>	<u>7,127,349</u>	<u>7,190,536</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,889,286</u>	<u>\$ 17,725,165</u>	<u>\$ 17,354,396</u>

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

Operating Results and Changes in the District's Net Position

The following is a presentation of certain financial information derived from the District's statements of revenue, expenses and changes in net position:

Overall, the District had an increase in net position of \$332,003 from 2013 to 2014.

	2014	2013	2012
OPERATING REVENUES			
Net patient service revenue	\$ 22,744,993	\$ 19,149,940	\$ 19,109,140
Other operating revenue	480,101	702,703	547,783
Total operating revenues	23,225,094	19,852,643	19,656,923
OPERATING EXPENSES			
Salaries and benefits	17,835,464	15,291,306	14,906,028
Professional fees	475,743	515,861	639,337
Medical supplies and drugs	1,964,716	1,627,838	1,567,983
Purchased services	1,037,371	925,691	733,839
Insurance	314,100	312,508	324,882
Other operating expenses	1,775,335	1,744,854	1,603,911
Depreciation and amortization	763,259	738,403	751,377
Total operating expenses	24,165,988	21,156,461	20,527,357
OPERATING INCOME (LOSS)	(940,894)	(1,303,818)	(870,434)
NON OPERATING REVENUES - NET	1,227,879	1,179,490	1,073,996
Capital Grants and Contributions	45,018	61,141	36,443
CHANGE IN NET POSITION	332,003	(63,187)	240,005
NET POSITION - Beginning of year	7,127,349	7,190,536	6,950,531
NET POSITION - End of year	\$ 7,459,352	\$ 7,127,349	\$ 7,190,536

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Management's Discussion and Analysis

The District's Statement of Cash Flows

The following is a presentation of certain financial information derived from the District's Statements of Cash Flows:

The District ended the year with a decrease in cash flow of \$2,052,408.

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash used in operating activities	\$ (2,099,879)	\$ (1,504,892)	\$ 606,119
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Net cash provided by noncapital financing activities	1,488,071	1,418,508	1,487,817
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Net cash used in capital and related financing activities	(1,517,061)	(1,249,364)	(1,091,443)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash provided by investing activities	76,461	102,527	19,126
Net decrease in cash and cash equivalents	(2,052,408)	(1,233,221)	1,021,619
Cash and cash equivalents - Beginning of year	3,798,399	5,031,620	4,010,001
Cash and cash equivalents - End of year	\$ 1,745,991	\$ 3,798,399	\$ 5,031,620

Contacting the District's Financial Management

This financial report provides our patients, suppliers, taxpayers and creditors with a general overview of Lake Chelan Community Hospital District's finances and shows the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrative Office at Lake Chelan Community Hospital, 503 E. Highland Avenue, Chelan, Washington.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Statement of Net Position December 31, 2014 and 2013

<i>Assets and Deferred Outflows of Resources</i>	2014	2013
Current assets		
Cash and cash equivalents	\$ 854,083	\$ 865,888
Receivables:		
Patient - Net	4,499,790	3,741,890
Taxes	145,467	179,052
Estimated third-party payor settlements	1,558,434	648,879
Other	346,583	73,138
Inventories	193,252	194,288
Prepaid expenses	135,847	120,534
Total current assets	7,733,456	5,823,669
Noncurrent cash and cash equivalents		
Restricted for capital improvements	3,363	3,388
Internally designated for EMS	296,637	83,979
Internally designated for capital acquisitions	591,908	2,845,144
Total noncurrent assets limited as to use	891,908	2,932,511
Capital assets		
Nondepreciable capital assets	5,095,010	4,906,351
Depreciable capital assets - Net of accumulated depreciation	3,196,682	3,386,651
Total capital assets - Net of accumulated depreciation	8,291,692	8,293,002
Other assets		
Lake Chelan Community Apartment assets	273,259	271,435
Deferred outflows of resources		
Excess consideration provided for acquisition - Net	313,687	-
Deferred charge on refunding	385,284	404,548
Total deferred outflows of resources	698,971	404,548
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 17,889,286	\$ 17,725,165

<i>Liabilities, Deferred Inflows of Resources and Net Position</i>	2014	2013
Current liabilities		
Current maturities - Long-term debt	\$ 215,000	\$ 215,000
Current portion - Capital lease obligations	29,500	34,159
Accounts payable	330,018	503,933
Employee compensation and related liabilities	1,033,600	600,400
Estimated third-party payor settlements	-	313,437
Accrued vacation	1,134,033	929,734
Accrued interest payable	23,677	23,818
Total current liabilities	2,765,828	2,620,481
Long-term debt - Less current maturities	7,551,872	7,761,715
Capital lease obligations - Less current portion	34,581	20,753
Total liabilities	10,352,281	10,402,949
Deferred inflows of resources - EHR incentive revenue	77,653	194,867
Net position:		
Net investment in capital assets	846,023	665,923
Restricted expendable	3,363	3,388
Unrestricted	6,609,966	6,458,038
Total net position	7,459,352	7,127,349
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 17,889,286	\$ 17,725,165

See accompanying notes to financial statements.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenue:		
Patient service revenue (net of contractual adjustments and discounts)	\$ 24,019,865	\$ 20,236,002
Provision for bad debt	(1,274,872)	(1,086,062)
Net patient service revenue	22,744,993	19,149,940
Other operating revenue	480,101	702,703
Total operating revenue	23,225,094	19,852,643
Operating expenses:		
Salaries and wages	14,205,786	12,522,296
Employee benefits	3,629,678	2,769,010
Professional fees	475,743	515,861
Supplies	1,964,716	1,627,838
Purchased services - Utilities	201,360	199,559
Purchased services - Other	1,037,371	925,691
Insurance	314,100	312,508
Repairs and maintenance	617,745	633,578
Rent	329,857	253,287
Other	626,373	658,430
Depreciation and amortization	763,259	738,403
Total operating expenses	24,165,988	21,156,461
Loss from operations	(940,894)	(1,303,818)
Nonoperating revenues - Net	1,227,879	1,179,490
Excess (deficiency) of revenue over expenses	286,985	(124,328)
Capital grants and contributions	45,018	61,141
Increase (decrease) in net position	332,003	(63,187)
Net position - Beginning of year	7,127,349	7,190,536
Net position - End of year	\$ 7,459,352	\$ 7,127,349

See accompanying notes to financial statements.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 20,764,101	\$ 18,074,203
Receipts from other operating revenue	362,887	702,703
Payments to employee	(17,197,965)	(15,239,880)
Payments to suppliers, contractors, and others	(6,028,902)	(5,041,918)
Net cash used in operating activities	(2,099,879)	(1,504,892)
Cash flows from noncapital financing activities:		
Property taxes for operations	1,412,973	1,394,901
Receipts from donations and other nonoperating revenues	75,098	57,396
Principal paid on noncapital debt	-	(33,153)
Interest paid on noncapital debt	-	(636)
Net cash provided by noncapital financing activities	1,488,071	1,418,508
Cash flows from capital and related financing activities:		
Capital grants and contributions	45,018	61,141
Proceeds from issuance of capital debt	-	8,154,137
Deposit to escrow for future debt repayment	-	(8,019,180)
Principal paid on capital debt	(215,000)	(329,355)
Principal paid on capital lease obligations	(40,873)	(42,369)
Proceeds from sale of assets	14,177	1,189
Excess consideration provided for acquisition	(364,700)	-
Interest paid	(292,391)	(316,497)
Debt issuance costs paid	-	(146,435)
Payments for purchase of property, buildings and equipment	(661,468)	(644,308)
Payments on escrow accounts related to property held for future expansion	(1,824)	32,313
Net cash used in capital and related financing activities	(1,517,061)	(1,249,364)
Cash flows from investing activities:		
Cash received from Lake Chelan Community Apartment assets - Net	37,511	64,420
Interest received	38,950	38,107
Net cash provided by investing activities	76,461	102,527
Net decrease in cash and cash equivalents	(2,052,408)	(1,233,221)
Cash and cash equivalents - Beginning of year	3,798,399	5,031,620
Cash and cash equivalents - End of year	\$ 1,745,991	\$ 3,798,399

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (940,894)	\$ (1,303,818)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	763,259	738,403
Provision for bad debts	1,274,872	1,086,062
Deferred EHR revenue recognized	(117,214)	13,162
Change in operating assets and liabilities:		
Receivables:		
Patient accounts	(2,032,772)	(2,159,839)
Estimated third-party payor settlements	(1,222,992)	(1,960)
Other	(273,445)	(71,858)
Inventories	1,036	17,940
Prepaid expenses	(15,313)	6,431
Accounts payable	(173,915)	119,159
Employee compensation and related liabilities	433,200	193,193
Accrued vacation	204,299	(141,767)
Total adjustments	(1,158,985)	(201,074)
Net cash used in operating activities	\$ (2,099,879)	\$ (1,504,892)

Supplemental Schedule of Noncash Investing and Financing Activities:

Equipment acquired under capital lease	\$ 50,042	\$ -
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Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectable accounts and provision for bad debts. Management regularly reviews data from the major payor sources revenue in evaluating the sufficiency of the allowance for uncollectable accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectable accounts and a provisions for bad debts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable accounts.

Property Taxes

The District has the authority to impose taxes on property within the boundaries of the health care district. Taxes are received from Chelan County (the "County"). Ad Valorem taxes and per parcel assessments are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same year. Taxes are payable in two equal installments on April 30 and October 31.

Inventories

Inventories of supplies are stated at cost (FIFO), which is considered lower than market value. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Noncurrent Assets Limited as to Use

Noncurrent assets are comprised of certain cash and cash equivalents and other resources set aside for specific purposes due to restrictions placed on them. Board designated assets include assets set aside by the Board of Commissioners for future capital improvements or other designated purposes. Board designated and restricted assets that are required for obligations classified as current liabilities are reported as current assets.

Capital Assets

Capital acquisitions are recorded at cost or, if donated, at fair value at the date of donation. The District capitalizes all assets with a cost of \$5,000 or greater. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements.

The estimated useful lives of capital assets are as follows:

Land improvements	3 to 52 years
Buildings and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years
Software	3 to 5 years

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Asset Impairment (Continued)

The determination of the impairment loss is independent of the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue and expenses and changes in net position. No impairment losses were recorded in 2014 and 2013.

Compensated Absences

The Annual Leave (AL) program at the District provides eligible personnel with appropriate compensation during sick time, holidays and vacation time. The District accrues annual leave for compensated absences as an expense and liability when earned based on the employee's status. The maximum allowable amount of AL time for each employee is twice their annual accrual.

AL balances, which have been accrued in a prior calendar year but not used during a subsequent calendar year, will accrue to a two-year maximum. A payout of 40 hours is available to employees upon approval. All employees who terminate their employment, with proper notice, will be paid unused AL hours at the regular rate of pay upon completion of three years of employment.

The sick leave program provides employees with appropriate compensation for illnesses for themselves or an eligible family member. The maximum allowable balance of sick leave is 480 hours. The District pays out 25% of the accrued balance (480 maximum) at termination of employment after three years of benefited employment status.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the consideration in excess of acquisition value of \$364,700 for a clinic acquired in 2014. This amount is deferred and amortized over five years, the estimated life of the underlying intangibles.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. Electronic health record incentive funding is deferred and recognized of the over the period that the related software is depreciated.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Service Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Grants and Contributions

From time to time, the District receives grants from Chelan County and the State of Washington as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Charity Care

The District provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. The District maintains records to identify the amounts of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

SWAP Revenue

The District received Public Hospital Disproportionate Share SWAP funds from the Washington State Department of Social and Health Services (DSHS) to maintain and or expand access to services for low-income and Medicaid eligible patients. The revenue is recorded as a contra contractual adjustment.

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 ("ARRA") provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record ("EHR") technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

The District recognizes revenue for EHR incentive payments when there is reasonable assurance that the District will meet the conditions of the program. For Medicaid purposes, the District may request and receive the first incentive payments as they adopt, implement, upgrade, and demonstrate meaningful use of certified EHR technology. In order to claim the first Medicare payment, the District must actually demonstrate meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based on management's best estimates, which are based in part on cost report data that is subject to audit by fiscal intermediaries; accordingly, amounts recognized are subject to change. In addition, the District's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The District incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenue results from exchange transactions associated with providing health care services, the District's primary business. Non-exchange revenue, including taxes, and grants and contributions received for purposes other than capital assets acquisition are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$59,127 and \$57,603 in 2014 and 2013, respectively.

Tax Status

The District operates under the laws of the state of Washington for Washington municipal corporations. As organized, the District is exempt from payment of federal income tax on operations or activities under Section 115 of the Internal Revenue Code. All District assets, liabilities, and financial transactions are included in these financial statements.

New Accounting Pronouncements

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations, to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. Government combinations are arrangements that meet GASB's definition of a government merger, government acquisition, or transfer of operations. The District adopted this guidance as of December 31, 2014.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications of 2013 amounts have been made in the accompanying financial statements to conform to 2014 presentation.

Note 2 Compliance

Management believes the District is in substantial compliance with current laws and regulation through year ended December 31, 2014.

Note 3 Cash and Cash Equivalents

The Revised Code of Washington, Chapter 39, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Washington State Local Government Investment Pool (PDPC); savings accounts in qualified public depositories; and certain other investments.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. The District's deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 3 Cash and Cash Equivalents (Continued)

At December 31, the District's had bank balances as follows:

	2014	2013
Cash on deposit with Chelan County Treasurer	\$ 1,002,548	\$ 3,526,679
General bank accounts	743,443	271,720
Totals	\$ 1,745,991	\$ 3,798,399

Note 4 Patient Accounts Receivable - Net

The mix of patient accounts receivable at December 31 is as follows:

	2014	2013
Receivables from patients and their insurance carriers	\$ 5,061,790	\$ 4,372,329
Receivables from Medicare	1,819,831	1,733,446
Receivables from Medicaid	143,238	139,995
Total patient accounts receivable	7,024,859	6,245,770
Less:		
Contractual adjustments	793,930	689,894
Allowance for uncollectible accounts	1,731,139	1,813,986
Patient accounts receivable - Net	\$ 4,499,790	\$ 3,741,890

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 5 Property Taxes

The District received approximately 3.45% and 4.30% of total revenue from property taxes in 2014 and 2013, respectively. These funds were used as follows:

	2014	2013
Levied to support operations	\$ 1,379,389	\$ 1,487,214

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes, limited to 101% of the District's highest in the preceding three tax years increased by amounts resulting from increased assessed valuation for new construction. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further, amounts of tax need to be authorized by the vote of the people.

For 2014, the District's general tax levy was \$0.2969215431 per \$1,000 on a total assessed valuation of \$2,262,550,110 for a total general levy of \$671,780. Additionally, the District's EMS tax levy was \$.310000 per \$1,000 on a total assessed valuation of \$2,262,550,110 for a total EMS levy of \$701,391.

For 2013, the District's general tax levy was \$.2932724192 per \$1,000 on a total assessed valuation of \$2,253,036,961 for a total general levy of \$660,754. Additionally, the District's EMS tax levy was \$.310000 per \$1,000 on a total assessed valuation of \$2,253,036,961 for a total EMS levy of \$698,441.

Property taxes are recorded as receivables when levied. Since State law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Note 6 Reimbursement Arrangements With Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenue charged and reimbursement under each of the various programs are included in contractual adjustments. A summary of the basis of reimbursement with major third-party payors follows: Gross revenue billed under the programs totaled \$17,349,859 and \$16,802,363 for 2014 and 2013, respectively.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 6 Reimbursement Arrangements With Third-Party Payors (Continued)

Medicare and Medicaid – The District's hospital is designated as a CAH. As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost reimbursement method, with the exception of certain types of laboratory and therapy services, which are reimbursed on a prospectively determined fee schedule. Professional services provided by physicians and other clinicians continue to be reimbursed on prospectively determined fee schedules.

Physician and Professional Services in Rural Health Clinic – Certain physician and professional services rendered to Medicare and Medi-Cal beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

Others – The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Accounting for Medicare and Medicaid Contractual Arrangements – The District is reimbursed for cost-reimbursable items at interim rates, with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The District's Medicare and Medicaid cost reports have been audited and tentatively settled through 2011.

Electronic Health Record Incentive Funding

In 2014, and 2013, the District amortized \$117,214 and \$402,811 each year of unearned revenue from the Medicare EHR incentive program. This amount is included in other operating revenue in the accompanying 2014 and 2013 statements of revenue, expenses, and changes in net position. As of December 31, 2014, unearned revenue from the Medicare EHR incentive payment totaled \$77,653.

As of December 31, 2014 and 2013 the District received Medicaid EHR incentive payments totaling \$77,653 and \$193,738, respectively. The Medicaid EHR incentive payment is recognized as other operating revenue the year it is received.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 6 Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in substantial compliance with applicable current laws and regulations.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. As of December 31, 2014, the District has not been notified by the RAC of any potential significant reimbursement adjustments.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 7 Capital Assets

Capital asset additions, retirements, and balances for the following at December 31:

	Balance January 1, 2014	Additions/ Transfers	Retirements	Balance December 31, 2014
Nondepreciable capital assets:				
Land	\$ 4,168,630	\$ -	\$ -	\$ 4,168,630
Construction in progress	737,721	188,659	-	926,380
Total nondepreciable capital assets	4,906,351	188,659	-	5,095,010
Depreciable capital assets:				
Land improvements	461,334	-	67,429	393,905
Buildings	5,149,510	-	-	5,149,510
Building service and fixed equipment	923,293	-	-	923,293
Equipment	4,841,905	522,851	46,544	5,318,212
Software	1,086,342	-	-	1,086,342
Total depreciable capital assets	12,462,384	522,851	113,973	12,871,262
Total capital assets before depreciation	17,368,735	711,510	113,973	17,966,272
Less accumulated depreciation for:				
Land improvements	333,198	3,545	67,429	269,314
Buildings	3,501,015	144,089	-	3,645,104
Building service and fixed equipment	781,858	13,162	-	795,020
Equipment	3,772,032	551,451	45,971	4,277,512
Software	687,630	-	-	687,630
Total accumulated depreciation	9,075,733	712,247	113,400	9,674,580
Total capital assets - Net	\$ 8,293,002	\$ (737)	\$ 573	\$ 8,291,692

At December 31, 2014, construction in progress (CIP) consisted of the following various projects. New planning costs related to a replacement hospital with estimated costs of about \$31 million estimated to be completion by end of 2017. The District is committed to the project with plans to fund issuing revenue bonds. An elevator repair, Centricity interface, and mobile administration office are expected to be completed by end of 2015 at an estimated cost of \$157,000. Additional CPSI licenses and meaningful use stage 2 software are expected to be completed by end of 2015 at an estimated cost of \$60,900.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 7 Capital Assets (Continued)

Capital asset additions, retirements, and balances for the following at December 31:

	Balance January 1, 2013	Additions/ Transfers	Retirements	Balance December 31, 2013
Nondepreciable capital assets:				
Land	\$ 4,168,630	\$ -	\$ -	\$ 4,168,630
Construction in progress	677,224	60,497	-	737,721
Total nondepreciable capital assets	4,845,854	60,497	-	4,906,351
Depreciable capital assets:				
Land improvements	461,334	-	-	461,334
Buildings	5,149,510	-	-	5,149,510
Building service and fixed equipment	916,260	7,033	-	923,293
Equipment	4,638,854	248,801	45,750	4,841,905
Software	758,365	327,977	-	1,086,342
Total depreciable capital assets	11,924,323	583,811	45,750	12,462,384
Total capital assets before depreciation	16,770,177	644,308	45,750	17,368,735
Less accumulated depreciation for:				
Land improvements	329,654	3,544	-	333,198
Buildings	3,337,283	163,732	-	3,501,015
Building service and fixed equipment	768,750	13,108	-	781,858
Equipment	3,409,213	408,569	45,750	3,772,032
Software	538,180	149,450	-	687,630
Total accumulated depreciation	8,383,080	738,403	45,750	9,075,733
Total capital assets - Net	\$ 8,387,097	\$ (94,095)	\$ -	\$ 8,293,002

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 9 Long-Term Liabilities

A schedule of changes in the District's long-term debt and capital lease obligations at December 31 is as follows:

	2013	Additions	Reductions	2014	Current Due
Bonds Payable:					
2013 LTGO Bonds	\$ 8,085,000	\$ -	\$ 215,000	\$ 7,870,000	\$ 215,000
Sub total bonds payable	8,085,000	-	215,000	7,870,000	215,000
Bonds Discounts:					
2013 LTGO Bonds Discounts	(108,285)	-	(5,157)	(103,128)	-
Total bonds payable	7,976,715	-	209,843	7,766,872	215,000
Capital lease obligations:					
Philips Medical Cap	54,912	-	34,159	20,753	20,753
Americorp	-	50,042	6,714	43,328	8,747
Total capital lease obligations	54,912	50,042	40,873	64,081	29,500
Total bonds payable and capital lease obligations	\$ 8,031,627	\$ 50,042	\$ 250,716	\$ 7,830,953	\$ 244,500
	2012	Additions	Reductions	2013	Current Due
Bonds Payable:					
1998 LTGO Bonds	\$ 110,000	\$ -	\$ 110,000	\$ -	\$ -
2001 LTGO Bonds	435,000	-	435,000	-	-
2006 LTGO Bonds	1,940,000	-	1,940,000	-	-
2009 LTGO Bonds	5,230,000	-	5,230,000	-	-
2013 LTGO Bonds	-	8,265,000	180,000	8,085,000	215,000
LCCH Apartment mortgage	39,355	-	39,355	-	-
Promissory note	33,153	-	33,153	-	-
Sub total bonds payable	7,787,508	8,265,000	7,967,508	8,085,000	215,000
Bonds Discounts:					
2013 LTGO Bonds Discounts	-	(110,863)	(2,578)	(108,285)	-
Total bonds payable	7,787,508	8,154,137	7,964,930	7,976,715	215,000
Horiba Financial Services	9,922	-	9,922	-	-
Philips Medical Cap	87,359	-	32,447	54,912	34,159
Total capital lease obligations	97,281	-	42,369	54,912	34,159
Total bonds payable and capital lease obligations	\$ 7,884,789	\$ 8,154,137	\$ 8,007,299	\$ 8,031,627	\$ 249,159

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 9 Long-Term Liabilities (Continued)

The terms and due dates of the District's long-term debt, including capital lease obligations, at December 31, 2014 and 2013, follows:

Long-Term Debt

Limited Tax General Obligation Refunding Bonds, dated December 1, 1998 due in annual principal installments of \$110,000 in 2013, plus interest at varying rates from 4.85% to 5.25%, payable June 1 and December 1 each year; bonds are subject to redemption prior to their stated dates of maturities beginning December 1, 2009.

Limited Tax General Obligation Bonds, dated March 15, 2001, due in varying annual principal installments of \$45,000 in 2013 to \$50,000 in 2021, plus interest at varying rates from 4.25% to 5.25%, payable June 1 and December 1 each year; bonds maturing on or after December 1, 2012, are subject to optional redemption prior to their stated maturity dates on or after December 1, 2011 at par plus accrued interest to the date of such redemption. Loan was paid off in 2013 and refinanced into 2013 LTGO Bond.

Limited Tax General Obligation Bonds, dated July 10, 2006, due in varying annual principal installments of \$100,000 in 2014 to \$185,000 in 2026, plus interest at varying rates from 3.9% to 4.75%, payable June 1 and December 1 each year; bonds maturing on or after December 1, 2011, are subject to optional redemption prior to their stated maturity dates on or after June 1, 2011, at par plus accrued interest to the date of such redemption. Loan was paid off in 2013 and refinanced into 2013 LTGO Bond.

Limited Tax General Obligation Bonds, dated October 1, 2009, due in varying annual principal installments of \$70,000 beginning in 2016 to \$570,000 in 2034, plus interest at varying rates from 4.15% to 4.75%, payable June 1 and December 1 each year; bonds maturing on or after December 1, 2011, are subject to optional redemption prior to their stated maturity dates on or after June 1, 2011 at par plus accrued interest to the date of such redemption. Loan was paid off in 2013 and refinanced into 2013 LTGO Bond.

LCCH Apartment mortgage payable to Housing and Urban Development, due in monthly installments of \$2,195, including interest at 7.0% with a balloon payment paid August 1, 2013. Loan was paid off during 2013.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 9 Long-Term Liabilities (Continued)

Long-Term Debt (Continued)

Limited Tax General Obligation Bonds, dated June 12, 2013, due in varying annual principal installments of \$215,000 in 2013 to \$565,000 in 2034 payable December 1 each year, plus interest at varying rates from 4% to 4.25%, payable each June 1 and December 1 each year; bonds maturing on or after December 1, 2013, are subject to optional redemption prior to their stated maturity dates on or after June 1, 2023 at par plus accrued interest to the date of such redemption.

Promissory note payable related to settled lawsuit, due in annual installments of \$34,268 beginning in May 2004 through May 2013, including interest at 5%. Note was paid off during 2013.

Legal Debt Margin

The District is subject to a general obligation debt limit of 2.5% of the assessed value of all taxable property within the District. That amount for the 2014 tax collection year was \$56,563,753 and the District's outstanding general obligation debt was \$7,870,000 or 13.91% of the debt limit.

Capital Lease Obligations

Lease obligation to Philips Medial Capital due in monthly installments of \$4,297 in 2014 through July 2015, including interest at 5.15% collateralized by equipment at a cost of \$199,934, with accumulated depreciation of \$176,709.

Lease obligation to Horiba Financial Services due in monthly installments of \$827 through November 2013, collateralized by equipment at a cost of \$30,292, with accumulated depreciation of \$24,748.

Lease obligation to Americorp Financial, LLC due in monthly installments of \$1,029 in 2014 through July 2019, including interest at about .76% collateralized by equipment at a cost of \$50,042, with accumulated depreciation of \$7,509.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 9 Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Years Ending December 31,	Bonds and Notes Payable			Capital Lease Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 215,000	\$ 280,656	\$ 495,656	\$ 29,500	\$ 3,962	\$ 33,462
2016	300,000	276,356	576,356	9,572	2,778	12,350
2017	300,000	270,356	570,356	10,482	1,868	12,350
2018	305,000	264,356	569,356	11,487	863	12,350
2019	315,000	258,256	573,256	3,040	47	3,087
2020-2024	1,720,000	1,159,438	2,879,438	-	-	-
2025-2029	2,110,000	820,913	2,930,913	-	-	-
2030-2034	2,605,000	341,063	2,946,063	-	-	-
Total	\$7,870,000	\$3,671,394	\$11,541,394	\$ 64,081	\$ 9,518	\$73,599

Note 10 Line of Credit

The District entered into an unsecured bank line of credit agreement with North Cascades Bank that provides for maximum borrowing of \$1,000,000 at prime rate plus .50% as of December 31, 2014. The purpose of the line of credit is for the District to support working capital during prolonged receivable collection period. There were zero line of credit activities as of December 31 2014.

Note 11 Leases

The District is committed under various leases for equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended December 31, 2014 and 2013 amounted to \$59,944 and \$60,507, respectively.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 12 Risk Management

The District is one of a number of Washington hospitals who are members of the Washington Casualty Company (WCC). WCC is a wholly owned subsidiary of Coverys, a nonprofit mutual insurance corporation used for payment of liability claims.

The WCC policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policy. Although there exists the possibility of claims arising from services provided to patients through December 31, 2014, which have not yet been asserted, the District is unable to determine the ultimate cost if any, of such possible claims and, accordingly, no provision has been made. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the District purchases claims-made insurance in that year or the District purchases "tail" insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The policy's limits provide \$1,000,000 per claim of primary coverage with a \$5,000,000 annual aggregate limit. WCC also provides excess coverage of \$4,000,000 per claim with \$4,000,000 annual aggregate. There are no significant deductible or coinsurance clauses for this policy.

The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

Workers' Compensation

The District participates in the self-insured Public Hospital District Workers' Compensation Trust, which is administered by the Washington State Hospital Association. The District pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reinsurance premiums. Amounts paid by the District for workers' compensation expense were \$7,881 and \$128,208 for 2014 and 2013, respectively.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 12 Risk Management (Continued)

Unemployment

The District participates in the self-insured Public Hospital District Unemployment Compensation Fund, which is administered by the Washington State Hospital Association. The District pays its share of actual unemployment claims, maintenance of reserves, and administrative expenses.

Payments by the District charged to unemployment expense were \$72,885 and \$102,933 for 2014 and 2013, respectively.

Health Insurance

The District, during 2013, started offering a self-funded health insurance plan in addition to the District's preexisting self-funded dental plan, which provide medical and dental benefits to employees and their dependents. Health and dental costs are expensed as incurred. Health and dental expense includes claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end.

The health plan has reinsurance to cover catastrophic individual claims over \$80,000. The dental plan covers annual individual claims up to \$2,000. The plans have no aggregate reinsurance.

The District incurred self-funded health expenses, including dental expense, of \$2,025,270 and \$1,283,322 for the year ended December 31, 2014 and 2013, respectively. No liability was accrued during 2013. The following represents the health plan activity for the District and estimated claims outstanding at December 31:

	Beginning of Fiscal year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2013	\$ -	\$ 1,463,682	\$ 1,463,682	\$ -
2014	\$ -	\$ 1,580,549	\$ 1,158,050	\$ 422,499

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 13 Charity Care

The District provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community including the health of low-income patients. Consistent with the mission of the District, health care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated \$474,888 and \$386,230 for the years ended December 31, 2014 and 2013, respectively.

The estimated cost of providing care to patients under the District's charity care policy aggregated \$283,730 and \$234,127 in 2014 and 2013, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing the charity care.

Note 14 Pension Plan

The District has a voluntary contributory money-purchase pension plan that is available to all employees that contribute three percent of their salary to the District's 403(b) plan. The plan is administered by CPI Qualified Plan Consultants, Inc. Any changes to the plan provisions must be both documented in the board minutes and authorized with a signature from one of the plan representatives. The plan is funded solely by employer contributions in which the District will contribute five percent of the employees' salary only if certain eligibility criteria are met by the employees, including the contribution to the 403(b) plan.

Employees are vested upon deposit. Pension costs include only current service costs, which are accrued and funded on a current basis. Pension plan expense was \$487,146 and \$391,020 for the years ended December 31, 2014 and 2013, respectively.

Chelan County Public Hospital District No. 2

d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 14 Pension Plan (Continued)

The District also has a voluntary retirement plan which was established by the District under section 403(b) of the Internal Revenue Code. The plan is funded solely by employee contributions, which are deposited in employee controlled accounts established with American Mutual Funds.

The District also has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 available to employees who have exceeded the maximum level of contributions to their 403(b) plan. The plan is administered by CPI Qualified Plan Consultants, Inc. and is funded solely by employee contributions with the fees paid for by the District.

Note 15 Net Patient Service Revenue

Net patient service revenue consisted of the following:

	2014	2013
Gross patient service revenue:		
Inpatient services	\$ 3,170,320	\$ 3,689,379
Outpatient services	36,193,943	30,547,169
Total gross patient revenue	39,364,263	34,236,548
Revenue deductions:		
Medicare contractual adjustments	(5,208,910)	(6,847,665)
Medicaid contractual adjustments	(1,354,077)	(752,854)
Other	(8,781,411)	(6,400,027)
Patient service revenue (net of contractual adjustments and discounts)	\$ 24,019,865	\$ 20,236,002

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 15 Net Patient Service Revenue (Continued)

The following table reflects the percentage of gross patient service revenue by payor source for the years ended December 31:

	2014	2013
Medicare	43%	42%
Medicaid	2%	3%
Other	55%	55%
Totals	100%	100%

Note 16 Functional Expenses

The District provides general health care services to residents within its geographical area. Expenses related to providing these services consisted of the following:

	2014	2013
Health care services	\$ 20,687,007	\$ 18,119,306
General and administrative	3,795,653	3,505,990
Total expenses	\$ 24,482,660	\$ 21,625,296

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 17 Related Organization

Foundation

Lake Chelan Community Hospital Foundation (the "Foundation"), formed in 1981, is a separate tax-exempt Washington corporation. The Foundation is not considered a component unit that must be combined with the District for financial statement purposes. The Foundation has assets and net assets of approximately \$2,904,657 and \$2,777,575 at December 31, 2014 and 2013, respectively, according to unaudited financial statements. Donations of \$88,760 and \$84,397 were contributed to the District by the Foundation for the years ended December 31, 2014 and 2013, respectively.

Lake Chelan Community Apartments

Lake Chelan Community Apartments (LCCA) is owned by Lake Chelan Community Hospital. Lake Chelan Community Hospital has contracted with the Housing Authority of Chelan County and the City of Wenatchee to manage LCCA. The 28-unit apartment is located in Chelan, Washington. LCCA was financed under Section 221 (d) (3) of the National Housing Act. Under this program, LCCA provided housing to tenants subject to regulation by the Department of Housing and Urban Development (HUD) and receives a rent subsidy. During the 2014 and 2013, rental subsidy from HUD totaled \$68,988 and \$65,018, 42 and 42 percent of total revenue, respectively.

The District assumed the existing Housing and Urban Development (HUD) loan on the LCCH Apartments in 2005. The District operates the property to serve the low income households for a period of time in order to meet the existing loan requirements.

At December 31, 2014 and 2013, all assets and liabilities of the rental property are included within the balance sheet of the District. At December 31, 2014 and 2013, rental income, net of expenses, is reported as nonoperating revenues on the statement of revenue and expenses and changes in net position.

Chelan County Public Hospital District No. 2 d/b/a Lake Chelan Community Hospital

Notes to Financial Statements

Note 18 Nonoperating Revenues Net

Total nonoperating revenues (expenses) for the years ended December 31, were as follows:

	2014	2013
Interest earnings	38,950	38,107
Interest expense	(316,672)	(468,835)
Non-capital grants and contributions	75,098	57,396
Gains (loss) on disposal of assets	13,604	1,189
Property tax	1,379,388	1,487,213
Lake Chelan Community Apartment assets revenue - Net of expenses	37,511	64,420
Total nonoperating revenues	\$ 1,227,879	\$ 1,179,490

Note 19 Government Acquisition

On August 12, 2014, the District acquired Lake Chelan Clinic, P.C. (the "Clinic") in exchange for \$512,700. The acquisition included all of the assets of the Clinic consisting of fixed assets, supplies, inventory, and general intangibles. The acquisition value of the net position acquired as of the acquisition date was determined to be \$148,000. \$364,700 was provided in excess of consideration.

Note 20 Subsequent Event

On April 28, 2015, the District entered into an agreement to sell the Lake Chelan Community Apartments for \$680,000. The sale has no financial impact for 2014.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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